CROWN MANAGEMENT BOARD OF SASKATCHEWAN

ANNUAL REPORT 1985

Contents

Letter of Transmittal 2

Board of Directors 3

Officers 3

Vice-Chairman's Remarks 4

President's Remarks 5

Crown Corporations 6

Consolidated Financial Performance 7

Consolidated Financial Statements 1985 14

Crown Investments Corporation of Saskatchewan
2400 College Avenue
Regina, Saskatchewan
S4P 1C8

Letter of Transmittal

Regina, Saskatchewan,
April 30, 1986

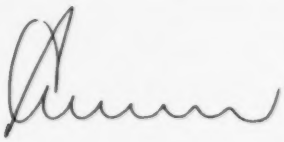
To His Honour,
The Honourable F.W. Johnson,
Lieutenant Governor of the Province of Saskatchewan.

Sir:

I have the honour to submit herewith the eighth annual report of the Crown Investments Corporation of Saskatchewan for the year ended December 31, 1985 including the consolidated financial statements therefor, duly certified by the Provincial Auditor and in the form approved by the Treasury Board, all in accordance with **The Crown Corporations Act, 1978.**

I have the honour to be, Sir,

Your obedient servant,



Bob Andrew,
Minister Responsible,
Crown Investments Corporation
of Saskatchewan

Board of Directors

Mr. Graham H. Walker,
Chairman

Hon. R.L. Andrew,
Vice-Chairman

Hon. D.G. Devine

Hon. E.A. Berntson

Hon. S.P. Dutchak

Hon. J.G. Lane, Q.C.

Hon. G.M. McLeod

Mr. Norman Bromberger,
Regina

Mr. Harold Lane,
Saskatoon

Mr. Frank Proto,
Edmonton

Officers

G.K. Wells,
President

D.A. Marce,
Secretary to the Board

T.A. Leier,
General Counsel

J.M. Costello,
Vice-President, Special Projects

I.A. Ellis,
Director, Special Projects

E.M. France,
Director, Special Projects

G.F. Parsons,
Director, Economic Analysis

S.D. Elbaum,
Vice-President, Corporate Planning

H.J. Matthies,
Director, Administration

C.E. McFarlane,
Director, Utility Crowns

G.A. Mrazek,
Director, Accounting Services

J.F. Reid,
Director, Resource Crowns

Vice-Chairman's Remarks

During the past three and one-half years, a number of major new policy initiatives relating to Saskatchewan's commercial Crown corporations were successfully implemented. Most notable among these achievements were:

- the establishment of the Crown Investments Review Commission which culminated with their report in December, 1982;
- the creation of the Public Utilities Review Commission;
- the introduction of private individuals as chairpersons to Crown corporation boards of directors;
- the divestiture and/or dilution of the government's ownership in certain private and public corporations;
- a corporate reorganization within the Crown Management Board group which included the creation of the Saskatchewan Water Corporation and the transfer of two non-commercial Crown corporations to Treasury Board responsibility; and
- the successful placement of Saskatchewan Power Corporation Savings Bonds and Saskatchewan Oil and Gas Corporation (Saskoil) Participation Bonds.

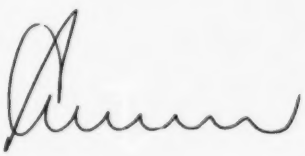
In 1985 the government effected the most significant policy change relating to the manner in which it governs and operates provincial Crown corporations when the Saskatchewan Legislature enacted The Saskatchewan Oil and Gas Corporation Act, 1985. This act allowed, for the first time, public participation in a Saskatchewan provincial Crown corporation. The participation was effected on December 16, 1985 by a public offering of 3,793,104 units, each unit containing one common and two preferred shares of Saskoil. In early 1986, Saskatchewan (and other Canadian) investors clearly displayed their agreement with this new and innovative policy by purchasing the full $110 million of Saskoil shares offered for sale. The overwhelmingly successful sale of Saskoil shares is a clear signal that Saskatchewan and Canadian investors are willing to invest significant amounts of funds into successful business entities based in Saskatchewan.

The sale of Saskoil shares and bonds and Saskatchewn Power Corporation bonds has resulted in $271.8 million being invested mainly by Saskatchewan residents for the benefit of the Province.

In addition to the foregoing public participation, a Memorandum of Understanding was entered into by the Province of Saskatchewan in early 1986 which included a proposal for the sale of certain assets of the Prince Albert Pulp Company Ltd. and Saskatchewan Forest Products Corporation to Weyerhaeuser Canada Ltd. and for Weyerhaeuser Canada Ltd. to construct a world class paper mill at Prince Albert. Also in 1986, a Memorandum of Intent was signed by CdF Chimie International, Saskatchewan Wheat Pool, Federated Co-operatives Ltd. and Crown Management Board for the proposed construction of North America's first refinery-integrated fertilizer plant with an annual capacity of up to 250,000 tons of anhydrous ammonia fertilizer. This will provide a major stimulus to Saskatchewan's natural gas industry as well as significantly improve the economics and viability of the adjoining heavy oil upgrader project to be built in Regina.

It is the stated intention of the government to continue to encourage private investment in Saskatchewan while simultaneously reducing government involvement in the business sector. It is also the full intention of the government, through the Crown Management Board, to guide and direct the province's remaining commercial Crown corporations effectively, efficiently and according to sound business principles.

I look forward to 1986 with great optimism as further changes are implemented and other accomplishments achieved.



Bob Andrew,
Vice-Chairman and
Minister Responsible,
Crown Management Board of
Saskatchewan

President's Remarks

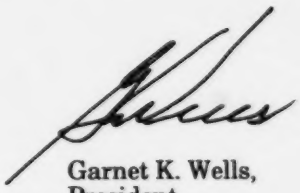
Crown Investments Corporation of Saskatchewan (CIC) is a provincial Crown corporation, without share capital, operating under authority of The Crown Corporations Act, 1978. The Corporation is similar to a holding company in that it is responsible for administering provincial government policy as it relates to those Crown corporations under its purview with particular emphasis on effective management and business efficiency. Crown corporations are designated as being within the CIC group by Order-in-Council. As at December 31, 1985 there were thirteen corporations so designated.

Each year the financial statements of CIC are consolidated with the aforementioned Crown corporations to provide the Legislature with financial information relating to the aggregate results of these corporations. For administrative purposes, CIC has grouped the corporations into three sectors: resources, utilities and financial and services. The corporations provide a wide variety of services and sell various commodities in both domestic and international markets. The diversified nature of the corporations within the consolidated group is such that the operating results can be affected by events and conditions occurring throughout the world.

The utilities sector and the financial and services sector were able to maintain approximately the same earnings levels as the previous year. Difficult market conditions particularly on the international scene were responsible for decreases in both price levels and sales volumes in the resource sector. Although one resource corporation had record earnings in 1985 the resource sector's overall results were significantly reduced from 1984.

As noted in the Vice-Chairman's remarks, 1985 ushered in a new era in the management of Saskatchewan's Crown corporations with the enactment of The Saskatchewan Oil and Gas Corporation Act, 1985 and the subsequent successful issue and placement of Saskatchewan Oil and Gas Corporation shares. Undoubtedly, this new philosophy of managing the government's interest in Crown corporations will present many new challenges to the Crown Management Board. I look forward to those challenges and am confident that such initiatives will improve the operating efficiency of the corporations through input from the private sector.

I would like to extend my appreciation to the boards and managements of all corporations in the group and to the corporation's staff for their concerted efforts during 1985. The accomplishments recorded in the past year would not have been possible without their dedication and professionalism.



Garnet K. Wells,
President,
Crown Management Board of
Saskatchewan

CROWN INVESTMENTS CORPORATION OF SASKATCHEWAN

Resources

Potash Corporation of Saskatchewan (PCS)

Saskatchewan Mining Development Corporation (SMDC)

Saskatchewan Forest Products Corporation (SFPC)

Saskatchewan Minerals

Utilities

Saskatchewan Power Corporation (SPC)

Saskatchewan Telecommunications (SaskTel)

Saskatchewan Computer Utility Corporation (SaskCOMP)

Saskatchewan Water Corporation (Sask Water)

Financial and Services

Saskatchewan Government Insurance (SGI)

Saskatchewan Economic Development Corporation (SEDCO)

Saskatchewan Development Fund Corporation (SDFC)

Saskatchewan Transportation Company (STC)

Agricultural Development Corporation of Saskatchewan (Agdevco)

Consolidated Financial Performance

This is the eighth annual report of the Crown Investments Corporation of Saskatchewan. The report includes a consolidated statement of 1985 financial results of the province's commercial Crown corporations and a brief comment of the performance of each corporation. Further information on each of the thirteen commercial Crown corporations is available in their individual annual reports.

Overview

A review of the consolidated group of corporations on a sector by sector basis reveals their true diversified nature. The financial and services sector experienced an overall improvement by reducing losses to $9.8 million in 1985 from $14.1 million for the previous year. The utility sector was somewhat below 1984 levels with net income of $45.6 million compared to $51.7 million in 1984. The most significant reduction, however, occurred in the resource sector where a loss of $7.8 million was in sharp contrast to the net income of $83.2 million achieved in 1984.

Collectively, the corporations continue to play a significant role in the economy of the province. During 1985, capital expenditures by the corporations totalled $643 million, compared to $618 million in 1984. This spending represents a sizeable stimulus to provincial economic activity. Since 1982, commercial Crown corporation capital spending has amounted to $2,775 million, an average of $693.8 million per year.

Saskatchewan's commercial Crown corporations contribute in other ways as well. For instance, taxes and royalty payments made to the province by the corporations were $114 million in 1985 ($125 million in 1984).

During 1985, total revenues increased to $2,138 million up from $2,112 million in the previous year. Total assets under the administration of the Crown Management Board grew, on a consolidated basis, from $6,687 million in 1984 to $7,063 million in 1985.

Resource Corporations

Four Crown corporations comprise this group — Potash Corporation of Saskatchewan, Saskatchewan Mining Development Corporation, Saskatchewan Forest Products Corporation and Saskatchewan Minerals. These corporations sell natural resource based commodities (potash, uranium, forest products and sodium sulphate) in both domestic and international markets. Saskatchewan Oil and Gas Corporation, discussed under the category Major Subsidiaries, was continued under the Business Corporations Act effective December 13, 1985 and was therefore not a Crown corporation at December 31, 1985. In 1985 the resource group (including Saskatchewan Oil and Gas Corporation) sustained a loss of $8 million which was a substantial decline from the net income of $83 million reported in 1984.

Utility Corporations

The four utility corporations — Saskatchewan Power Corporation, Saskatchewan Telecommunications, Saskatchewan Computer Utility Corporation and Saskatchewan Water Corporation — have a mandate to provide goods and services to the people of Saskatchewan at reasonable rates. Both Saskatchewan Power Corporation and Saskatchewan Telecommunications fall within the jurisdiction of the Public Utilities Review Commission (PURC). PURC was established in 1982 to review and approve rate changes requested by certain monopoly utility service Crown corporations.

Saskatchewan Power Corporation and Saskatchewan Telecommunications improved gross revenues in 1985. For Saskatchewan Power Corporation this was partly as a result of receiving the effect for one full year of rate increases approved by PURC in 1984. However, even with a combination of rate relief for Saskatchewan Power Corporation, increased customer demand and improved operating efficiencies, the utility corporations were unable to offset increased costs (particularly interest on debt). This led to a $6 million decline in net income for this sector compared to 1984 levels.

Financial and Service Corporations

The financial and service group is comprised of five corporations — Saskatchewan Government Insurance, Saskatchewan Economic Development Corporation, Saskatchewan Transportation Company, Agricultural Development Corporation of Saskatchewan and Saskatchewan Development Fund Corporation.

This sector incurred losses of $9.8 million in 1985, an improvement of $4.3 million from the losses of $14.1 million recorded in 1984. Saskatchewan

Government Insurance's loss of $7.7 million was primarily a result of continuing difficulty in its reinsurance business. Saskatchewan Economic Development Corporation, however, showed a substantial improvement by rebounding from an $8.8 million loss in 1984 to a breakeven level of earnings in 1985.

Major Subsidiaries

1) CIC Industrial Interests Inc. (CIC III)

A number of private sector companies and other investments are held by a wholly-owned subsidiary, CIC III. At year-end, CIC III held a 16.2 per cent interest in IPSCO Inc., a 100 per cent interest in Cablecom Corporation, a 100 per cent interest in Prairie Malt Ltd., a 16.0 per cent interest in SED Systems Inc. and a 100 per cent interest in Saskoil Development Corporation.

2) Prince Albert Pulp Company Ltd.

Prince Albert Pulp Company Ltd. is also a wholly-owned subsidiary of Crown Investments Corporation of Saskatchewan. Its major facility, located in Prince Albert, produces high quality bleached kraft pulp. The company's pulp is marketed both domestically and internationally.

3) Saskatchewan Oil and Gas Corporation (Saskoil)

On December 13, 1985, the Saskatchewan Legislature enacted The Saskatchewan Oil and Gas Corporation Act, 1985. This act continued Saskoil under the Business Corporations Act thereby ending its status as a Crown corporation. On December 16, 1985, Saskoil issued a prospectus constituting an initial public offering of its common and preferred shares. As the offering was not closed until after December 31, 1985, Saskoil was effectively still 100 per cent owned by Crown Investments Corporation of Saskatchewan on that date. Therefore, 100 per cent of the 1985 operating results of Saskoil are contained in the accompanying financial statements.

On January 14, 1986, the Corporation sold to the public 3,793,104 common shares at $9.00 per share and 7,586,208—7.25 per cent Cumulative Redeemable Voting Convertible Second Preferred Series A shares at $10.00 per share. The proceeds of this share issue amounted to $110 million from which a dividend of $75 million was paid to Crown Investments Corporation of Saskatchewan. Underwriting costs of the issue amounted to $4.5 million and expenses incurred were $1.8 million.

In terms of operating results, Saskoil experienced another good year in 1985 recording earnings of $40.6 million compared to $44.0 million in 1984. With a return on capital employed of 18.3 per cent, Saskoil is one of the most profitable oil companies in Canada. Corporate cash flow supported an aggressive capital program of $58.8 million as compared to $44.2 million in 1984.

Resource Corporations

Potash Corporation of Saskatchewan (PCS)

PCS reported a loss of $68.7 million in 1985 (compared to $25.3 million net income in 1984). Sales revenues in 1985 were $195 million, on sales of 3.4 million tonnes KCl (17 per cent less than 1984). Sales in North America (particularly the U.S.A.) were weak, primarily because of poor income in the farm sector for the second consecutive year. Consequently, potash supply exceeded demand forcing potash prices to drop 23 per cent below the 1984 levels. In addition, there was an extraordinary charge of $19 million related to a proposed mine development site at Bredenbury, Saskatchewan. In the Corporation's opinion, the site was unlikely to be developed in the foreseeable future and therefore, costs previously included in deferred charges were written off.

Through 1985, PCS continued its research and development activities in accordance with corporate policy. These activities support the Corporation's diversification initiatives, aimed at developing new products and opening new markets for the company. PCS also provided support to University of Saskatchewan research programs during the year.

Saskatchewan Mining Development Corporation (SMDC)

SMDC reported net income of $18.0 million in 1985 (compared to $15.2 million in 1984) on uranium sales of $174.6 million to Canadian, American, Western European and Asian utilities. Cash provided by operations reached $100.8 million during 1985. This is a significant increase over the 1984 operating cash flow of $50.5 million. A dividend of $8.0 million was declared and represents the fourth consecutive year that SMDC has paid dividends to the Province.

The Key Lake mine, located in northern Saskatchewan, in which SMDC holds a 50 per cent interest, produced 11.1 million pounds of U_3O_8, or about 92.5 per cent of its annual rated capacity of 12 million pounds. The Cluff Lake mine, also located in northern Saskatchewan, in which SMDC holds a 20 per cent interest, completed its fifth year of successful commercial operation producing 2.2 million pounds of U_3O_8 in 1985.

In 1985, a new operating company, the Cigar Lake Mining Corporation, was formed, in which SMDC is a 50.75 per cent shareholder. This international joint venture operating company has a mandate to develop the Cigar Lake deposit, the world's richest uranium orebody. Drill indicated reserves are estimated at 285 million pounds U_3O_8 with an average ore grade of 14.4 per cent U_3O_8 and a further 100 million pounds U_3O_8 at an average ore grade of nearly 5 per cent U_3O_8. It is planned to develop these reserves to commercial production for the early 1990's.

The Star Lake gold project, in which SMDC has a 50 per cent interest and acts as operator, is moving toward a production date of spring 1987. Environmental approval for construction and development of a 220 ton per day mine/mill was granted in October of 1985. Indicated reserves are approximately 230,000 tons at .50 oz. gold per ton.

SMDC continued in 1985 with a more diversified exploration program that emphasized grassroots gold exploration and to a lesser extent, participation in other precious and base metals programs. In contrast, the uranium exploration program centres on well-developed properties where work is concentrated on delineating potential orebodies or establishing reserve levels.

For the first time in the history of nuclear power, consumption of uranium fuel exceeded production. This signals the beginning of a period of reductions to the large pockets of inventory held by uranium consumers. Gradual improvement in uranium prices can be anticipated during the next four to five years as the inventory is reduced to desired levels.

Saskatchewan Forest Products Corporation (SFPC)

SFPC is a diversified forest products company, with nearly 500 employees, producing sawn lumber at its mills in Carrot River and Big River, plywood at the Hudson Bay plant and various treated wood products at its Prince Albert facility.

SFPC's financial results improved in 1985 even though the Corporation was faced with higher labour costs, substantial debt service charges and buffeted by fluctuating demand and irregular price movements. The loss reported by SFPC decreased to $4.3 million from $4.5 million in 1984.

Saskatchewan Minerals

Increased by-product competition and the substitution by customers of emulsified sulphur and caustic soda continued to adversely affect Saskatchewan Minerals' sales of its main product — sodium sulphate.

Despite continued recovery in the United States, industrial demand for Saskatchewan sodium sulphate did not rise during 1985. However, by holding operating costs to about 1984 levels, the Corporation was able to record a profit of $1.4 million, down from $3 million in 1984.

During 1985, Saskatchewan Minerals continued development of an important project begun in the previous year. Assembly of the new dredge and related equipment at the Ingebrigt plant continued with completion expected in 1986. This machinery will increase the production capacity of the Corporation thereby improving its competitive position in the industry.

Utility Corporations

Saskatchewan Power Corporation (SPC)

During 1985, SPC continued to expand and upgrade supply and distribution facilities to meet increasing provincial energy requirements. Major capital programs were undertaken by SPC to ensure that the Corporation effectively serves the needs of customers across the province, now and in the future.

In addition to ensuring that future energy needs will be met, SPC's capital projects are major stimuli to the provincial economy. To December 31, 1985, $508 million was spent on the Nipawin hydro-electric project and more than 23,000 man-months of employment were created at the project site. One of the three 84 mw generating units was placed in operation in mid-December. The second unit was operating under test conditions at year end. The third unit is expected to be in service in the spring of 1986. Spending on the Saskatchewan Natural Gas Distribution Program totalled $46 million during 1985 and natural gas service was extended to an additional 4,200 new farm customers and 1,331 new urban customers.

The second initiative in the government's highly successful program to promote public participation in Crown corporations continued in 1985 with the issuance of more than $90 million in Saskatchewan Power Corporation Savings Bonds. These bonds, available only to residents of Saskatchewan, carry a minimum rate of interest of nine and one-half per cent and are guaranteed by the province. The bond issue was designed to provide a safe, secure investment for provincial residents, to provide a vehicle through which Saskatchewan savings could be invested in the province and to provide the Corporation with an alternative to conventional lending institutions for some of its financial requirements.

The Corporation achieved an overall consolidated net income of $1 million in 1985 ($9.6 million in 1984). Rates for electricity did not change in 1985. On March 3, 1986 the Public Utilities Review Commission ordered the Corporation to refund by May 1, 1986 a total of $4.3 million to all gas customers on an equal cents per cubic metre basis, according to their 1985 gas consumption. This refund is reflected in the Corporation's results for 1985.

Saskatchewan Telecommunications (SaskTel)

SaskTel recorded its best financial performance ever, a profit of $37 million, up from $35.6 million in 1984. Revenues increased from 1984 levels, primarily due to a growth in long distance calling. Interest and related costs remained at 1984 levels, despite increased foreign exchange losses incurred on the Corporation's debt denominated in United States dollars. SaskTel did not seek a general rate increase from the Public Utilities Review Commission in 1985.

The industry structure in which SaskTel operates is undergoing a major change, as the telecommunications and data processing industries are evolving into a single industry called information handling. In 1985, a new mandate was approved for SaskTel enabling the Corporation to evolve into an information handling company. This will position the Corporation to capture a share of the industry's growth, give SaskTel the flexibility of offering Saskatchewan customers services and applications available elsewhere in Canada and enable the Corporation to act as a catalyst to stimulate the development of related industries and businesses in the province.

SaskTel's experience in installing and operating the world's first large commercial fibre optic system has made it a leader in a technology that is in demand all over the world. In 1985, numerous countries showed an interest in SaskTel's system and potential exists for the Corporation to market its expertise in the international market-place.

During 1985, SaskTel continued development on a 10-year project that is designed to replace electro-mechanical switching equipment with electronic digital switching systems. This is part of a larger program to have an all-digital network in place by the late 1990's.

Other important developments included the installation of a record 724,439th telephone in Saskatchewan and an all-time high of 104.4 million long distance messages originating in Saskatchewan.

Saskatchewan Computer Utility Corporation (SaskCOMP)

SaskCOMP provides computer services to government departments and Crown corporations within Saskatchewan. Revenue from these customers

makes up approximately 97 per cent of total SaskCOMP revenue. Over the last few years SaskCOMP has grown into one of the largest computer service bureaus in western Canada and is the tenth largest service bureau in Canada.

SaskCOMP delivers a variety of products and services and counts among its major customers Saskatchewan Government Insurance, Saskatchewan Telecommunications, Saskatchewan Social Services, Saskatchewan Revenue and Financial Services, Saskatchewan Health, Workers Compensation Board, Saskatchewan Highways, Saskatchewan Energy and Mines, Saskatchewan Justice and Saskatchewan Agriculture with gross revenue from the largest of these customers at $4.2 million per year.

For the third consecutive year, SaskCOMP implemented rate reductions for most services. Net earnings decreased to $2.3 million in 1985 from $5.6 million in 1984. During 1985, SaskCOMP's management and staff made a concerted effort to improve the productivity of their operations and to provide an effective and efficient computer service to their customers.

The increase in customer usage was significant for online activities in 1985. This is evidenced not only by a substantial increase in demand for computing capacity, but also by an almost doubling of online terminals accessing the Regina Regional computer centre. Along with increasing demand for computing services, additional customer demand led to the acquisition and installation of three database management systems and several other product upgrades and additions. Running in parallel with the increase in demand, was an overall improvement in customer satisfaction.

Saskatchewan Water Corporation (Sask Water)

Created in 1984 by an Act of the Saskatchewan Legislature, this corporation was established to meet challenges imposed by a growing population and expanding industrial and agricultural sectors for the planning, management and provision of vital water resources. The Corporation is responsible for a variety of water-related programs previously administered by various government departments, thereby permitting water management issues to be addressed more effectively.

In 1985, its first full year of operation, Sask Water earned $1.3 million on revenues of $26.5 million (which included a $21.3 million grant from the Province of Saskatchewan to continue existing programs). During the six-month period ended December 31, 1984, the Corporation earned $0.5 million on revenues of $17.4 million (including a $14.1 million grant from the Province of Saskatchewan).

Financial and Service Corporations

Saskatchewan Government Insurance (SGI)

SGI is a competitive property and casualty insurer, offering a variety of insurance services across the province. SGI provides insurance coverage to businesses, homes and farms, as well as offering optional automobile coverage beyond the compulsory basic package provided by the Saskatchewan Auto Fund.

The North American casualty and property insurance industry remains intensely competitive, especially in commercial and personal lines. The Saskatchewan industry is also vulnerable to the storm claims that typify the prairie region. Despite these impediments, SGI made improvements in virtually all product lines during 1985. SGI's overall loss ratio of 71.7 per cent outperformed the ratio of 82.9 per cent projected for the industy Canada-wide, and compares favourably with SGI's own 1984 loss ratio of 70 per cent.

SGI recorded a loss of $7.7 million in 1985 in its general business operations, compared to a 1984 loss of $3.6 million. The increased loss was entirely due to the deterioration of its assumed reinsurance liabilities portfolio.

SGI also administers the Saskatchewan Auto Fund (SAF). The SAF provides compulsory automobile insurance, in accordance with the terms and conditions established by legislation, for all vehicles registered in the province.

Saskatchewan Economic Development Corporation (SEDCO)

SEDCO's objective is to promote the economic development of the province by encouraging business and industry to start, relocate or expand in

Saskatchewan. This role is carried out through a wide variety of financial and industrial property services, ranging from long term financing and loan guarantees to offering for sale and/or lease commercial and industrial property.

Financial performance improved markedly for SEDCO in 1985 as a result of tighter controls, more aggressive marketing and concerted efforts to reduce non-productive assets. Margins on loans and property investments both showed an increase. At the same time corporate overhead expenses were trimmed and, for the first time in years, there was a recovery rather than a charge to bad debt expense. The net effect was a 1985 loss of $0.56 million compared to an $8.88 million loss in 1984.

Saskatchewan Development Fund Corporation (SDFC)

SDFC was established in 1974 under the Saskatchewan Development Fund Act to perform the duties of trustee, custodian and manager for the Saskatchewan Development Fund, an open-end investment trust. SDFC initially managed the affairs of the Saskatchewan Development Fund and in turn received management fees and sales charges for its services from the Fund. In 1976, SDFC expanded its operations to include an annuity business which offered several different types of annuities to the public.

SDFC continues to manage the affairs of the Saskatchewan Development Fund although it no longer offers annuities to the public. In 1985, the Corporation moved its operations to the offices of the Crown Investments Corporation of Saskatchewan and is now administered by its Board of Directors through the use of staff and facilities provided by the Crown Investments Corporation of Saskatchewan.

SDFC reported net earnings in 1985 of $288 thousand compared to net earnings in 1984 of $330 thousand. Total assets in 1985 were $26.1 million compared to $27.4 million in 1984.

Saskatchewan Transportation Company (STC)

STC's bus service operates on a complex network of over 5.5 million route-miles. In many parts of the province, particularly in rural areas, STC's passenger and parcel express service constitutes the only regularly scheduled commercial transportation service. The company's vehicle fleet serves more than 400 communities in Saskatchewan and about 80 per cent of the province's population. It served over 730,000 passengers in 1985.

Passenger volume increased slightly in 1985 with ticket prices remaining unchanged from the previous year. Marginal growth in revenues and continued emphasis on productivity and efficiency enabled the Corporation to reduce its loss for the year from $1.8 million in 1984 to $1.7 million in 1985.

Agricultural Development Corporation of Saskatchewan (Agdevco)

The primary objective of Agdevco is to support the development of domestic and export trade for the province's agricultural and industrial products and to promote research and development related to alternative agro-industrial products and services. High priority is given to developing new international markets for Saskatchewan products and services, and to expanding sales and shipments to areas with long-standing market ties.

The Corporation is also active in the management and coordination of international aid and development projects. The expertise developed by Saskatchewan's agricultural industry often proves instrumental in overcoming problems faced in the developing world. As well, the exposure which comes from such project management aids the Corporation in the establishment of beneficial trading relationships.

The Corporation recorded a net loss of $193 thousand for 1985. The loss was attributed to investments in international business development by the Corporation's International Project Management sector.

CROWN INVESTMENTS CORPORATION OF SASKATCHEWAN

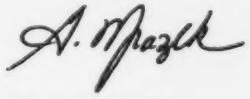
Consolidated Financial Statements 1985

Responsibility for Financial Statements

The financial statements have been prepared by the management of the Corporation in accordance with generally accepted accounting principles applied on a basis consistent with that of the previous year. The statements have been examined and approved by the Board of Directors.

The integrity of the Corporations financial records, from which these financial statements are prepared, is largely dependent on the Corporations system of internal accounting controls. The purpose of such systems is to provide reasonable assurance that transactions are executed in accordance with proper authorization; transactions are appropriately recorded in order to permit preparation of financial statements which, in all material respects, are presented in conformity with generally accepted accounting principles consistently applied; and assets are properly accounted for and safeguarded against loss from unauthorized use. Underlying this concept of reasonable assurance is the fact that limitations exist in any system of internal accounting controls based on the premise that the cost of such controls should not exceed the benefits derived therefrom.

Our independent auditor, whose report on the examination of the consolidated financial statements appears on page 15, reviews the systems of internal control in accordance with generally accepted auditing standards for the purpose of expressing his opinion.



G. A. Mrazek,
Director,
Accounting Services

Contents

Auditor's Report 15

Consolidated Statement of Financial Position 16

Consolidated Statement of Operations 18

Consolidated Statement of Reinvested Earnings .. 19

Consolidated Statement of Cash Flows 20

Notes to Consolidated Financial Statements 21

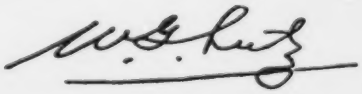
Auditor's Report

To the Members of the Legislative Assembly
of Saskatchewan

I have examined the consolidated statement of financial position of Crown Investments Corporation of Saskatchewan as at December 31, 1985 and the consolidated statements of operations, reinvested earnings and cash flows for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

Recently, there has been considerable clarification of financial reporting and auditing issues in the public sector by the Canadian Institute of Chartered Accountants. As explained in Note 1a, the financial statements of those corporations designated by Order-in-Council as subject to Part II of The Crown Corporations Act, 1978 are consolidated in these financial statements in accordance with the pooling of interests method. Generally accepted accounting principles require, except in certain specific instances, the preparation of consolidated financial statements when there has been a business combination, that is, any transaction whereby one business unites with or obtains control over the assets of another business which results in the bringing together of separate companies into one economic unit. Generally accepted accounting principles precludes from business combinations any financial arrangements between companies that are under common control. Since the corporations subject to Part II of The Crown Corporations Act, 1978 included in these consolidated financial statements are under the control of the Executive Council and not Crown Investments Corporation of Saskatchewan, the requirements for a business combination under generally accepted accounting principles have not been met. In this respect, the economic unit portrayed by these consolidated financial statements is not, in my opinion, presented in accordance with generally accepted accounting principles. Had consolidated financial statements of Crown Investments Corporation of Saskatchewan been prepared for the appropriate economic unit in accordance with generally accepted accounting principles, virtually every account in, and the information provided by way of notes to, the accompanying financial statements would be materially different. Further, in my opinion, if aggregated financial statements are to be presented to the Legislative Assembly for those corporations listed in Note 1a and Crown Investments Corporation of Saskatchewan, generally accepted accounting principles require that such financial statements be presented as combined financial statements rather than consolidated financial statements since the Executive Council and not Crown Investments Corporation of Saskatchewan controls these corporations.

In my opinion, because an appropriate economic unit is not portrayed by these consolidated financial statements as described in the preceding paragraph, these consolidated financial statements do not present fairly the consolidated financial position of the Corporation as at December 31, 1985 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.



Regina, Saskatchewan,
March 24, 1986.

W.G. Lutz, F.C.A.,
Provincial Auditor.

Consolidated Statement of Financial Position

As at December 31

	Note Reference	1985	1984
		(thousands of dollars)	
Assets			
Current			
Short-term investments		**$ 124,041**	$ 137,096
Accounts receivable		**371,966**	385,740
Inventories		**120,518**	128,871
Prepaid expenses		**134,683**	117,993
		751,208	769,700
Long-term investments	3	**492,078**	470,254
Property, plant and equipment	4	**5,508,219**	5,172,967
Deferred charges	5	**311,197**	274,266
		$ 7,062,702	$ 6,687,187

	Note Reference	1985	1984
		(thousands of dollars)	
Liabilities and Province's Equity			
Current			
Bank indebtedness	6	**$ 110,753**	$ 88,390
Accounts payable and accrued liabilities		**527,946**	493,952
Notes payable	7	**351,920**	196,183
Dividend payable		**25,000**	—
Deferred revenue		**102,670**	89,824
Long-term debt due within one year	8	**285,153**	248,977
		1,403,442	1,117,326
Deferred revenue		**76,280**	109,363
Long-term debt	8	**4,285,610**	3,991,085
Province of Saskatchewan's Equity			
Advances	9	**747,230**	838,730
Reinvested earnings		**431,762**	536,007
		1,178,992	1,374,737
Customer capital contributions		**118,378**	94,676
		1,297,370	1,469,413
		$ 7,062,702	$ 6,687,187
Commitments and contingencies	10		

(See accompanying notes)

Consolidated Statement of Operations

For the Year Ended December 31

	Note Reference	1985	1984
		(thousands of dollars)	
Revenue			
Sales of products and services		**$ 1,996,406**	$ 1,994,592
Revenue from investments	3	**69,836**	56,223
Other	17	**72,069**	61,105
		2,138,311	2,111,920
Expenses			
Operating costs other than those listed below		**1,316,911**	1,229,264
Interest	11	**484,468**	426,872
Depreciation and depletion	4	**282,724**	271,394
Saskatchewan taxes and resource payments	12	**114,359**	125,082
		2,198,462	2,052,612
Net income (loss) before extraordinary items		**(60,151)**	59,308
Extraordinary items	13	**(19,094)**	7,684
Net income (loss)		**$ (79,245)**	$ 66,992

(See accompanying notes)

Consolidated Statement of Reinvested Earnings

For the Year Ended December 31

	Unappropriated		Appropriated		Total	
	1985	1984	**1985**	1984	**1985**	1984
			(thousands of dollars)			
Balance, beginning of year	**$ 187,992**	$ 161,587	**$ 348,015**	$ 322,319	**$ 536,007**	$ 483,906
Net income (loss)	**(79,245)**	66,992	**—**	—	**(79,245)**	66,992
Dividend	**—**	—	**(25,000)**	—	**(25,000)**	—
Appropriations —Note 14	**50,684**	(40,587)	**(50,684)**	25,696	**—**	(14,891)
Balance, end of year	**$ 159,431**	$ 187,992	**$ 272,331**	$ 348,015	**$ 431,762**	$ 536,007

(See accompanying notes)

Consolidated Statement of Cash Flows

For the Year Ended December 31

	1985	1984
	(thousands of dollars)	
CASH PROVIDED BY OPERATING ACTIVITIES		
Net income (loss) before extraordinary items	**$ (60,151)**	$ 59,308
Add (deduct) non-cash items		
— Depreciation and depletion	**278,170**	274,587
— Sinking fund earnings	**(44,837)**	(30,709)
— Other	**27,806**	47,893
	200,988	351,079
Net change to non-cash working capital balances related to operations	**227,549**	(218,074)
Cash provided by operating activities	**428,537**	133,005
CASH PROVIDED BY (USED IN) INVESTMENT ACTIVITIES		
Capital expenditures	**(643,025)**	(617,862)
Proceeds on disposals of fixed assets	**20,717**	132,599
Acquisition of investments	**(78,107)**	(161,392)
Disposals and collections of investments	**40,416**	30,792
Increase in deferred revenue	**8,065**	15,808
Customer capital contributions	**23,702**	11,048
Debt discount and other deferred charges	**(2,461)**	(2,194)
Net non-current assets transferred to Saskatchewan Auto Fund	**—**	122,563
Cash used in investment activities	**(630,693)**	(468,638)
CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES		
Long-term debt proceeds		
— Province of Saskatchewan	**371,257**	285,369
— Other lenders	**164,619**	152,932
Long-term debt repayments		
— Province of Saskatchewan	**(139,063)**	(70,893)
— Other lenders	**(125,520)**	(1,634)
Equity advance repayment	**(91,500)**	—
Cash provided by financing activities	**179,793**	365,774
NET INCREASE (DECREASE) IN CASH DURING YEAR	**(22,363)**	30,141
CASH POSITION, BEGINNING OF YEAR	**(88,390)**	(118,531)
CASH POSITION, END OF YEAR	**$ (110,753)**	$ (88,390)

Cash position comprises bank indebtedness less cash

(See accompanying notes)

Notes to Consolidated Financial Statements

December 31, 1985

1. Summary of significant accounting policies

This summary of significant accounting policies is a description of the accounting methods and practices that have been used in the preparation of these consolidated financial statements.

a) Consolidation principles

The Crown Corporations Act, 1978 (the Act) assigns certain financial and other responsibilities to Crown Investments Corporation of Saskatchewan regarding corporations subject to Part II of the Act. Saskatchewan provincial Crown corporations become subject to Part II of the Act by Order-in-Council. Accordingly, the following corporations have been designated as subject to the Act by Order-in-Council 630/84 (amended by 874/84) and are consolidated in these financial statements in accordance with the pooling of interests method.

Resources

Potash Corporation of Saskatchewan and consolidated subsidiaries;
Saskatchewan Forest Products Corporation and consolidated subsidiary;
Saskatchewan Minerals;
Saskatchewan Mining Development Corporation and consolidated subsidiary.

Utilities

Saskatchewan Computer Utility Corporation;
Saskatchewan Power Corporation and consolidated subsidiaries;
Saskatchewan Telecommunications;
Saskatchewan Water Corporation.

Financial and Services

Agricultural Development Corporation of Saskatchewan;
Saskatchewan Development Fund Corporation;
Saskatchewan Economic Development Corporation;
Saskatchewan Government Insurance;
Saskatchewan Transportation Company.

The Crown corporations listed above do not have share capital. However, eleven corporations have received non-interest bearing equity advances from Crown Investments Corporation of Saskatchewan. In addition, three corporations (including Crown Investments Corporation of Saskatchewan) have received non-interest bearing equity advances directly from the Saskatchewan Heritage Fund.

For purposes of these consolidated financial statements, the equity advances from Crown Investments Corporation of Saskatchewan have been eliminated against the corresponding equity of the eleven applicable corporations. Therefore the amount reported as equity advances in these consolidated financial statements represents only those equity advances received directly from the Saskatchewan Heritage Fund (note 9).

In addition to the Crown corporations listed above, the Prince Albert Pulp Company Ltd., CIC Industrial Interests Inc. and Saskatchewan Oil and Gas Corporation, are wholly-owned subsidiaries. Prince Albert Pulp Company Ltd. and CIC Industrial Interests Inc. are consolidated in accordance with the purchase method of accounting whereas Saskatchewan Oil and Gas Corporation is accounted for by the pooling of interests method.

b) Joint ventures

The joint venture investments of Saskatchewan Mining Development Corporation, Saskatchewan Oil and Gas Corporation and Saskatchewan Power Corporation are accounted for by the proportionate consolidation method.

c) Inventories

Inventories for resale at various stages of manufacture are valued at the lower of average cost and net realizable value, except for certain forest products raw materials and other inventory supplies which are valued at the lower of average cost and replacement cost.

d) Investments

Investments maturing within one year are included with current assets and are valued at cost. This valuation approximates their quoted market value.

Long-term investments include shares held in private and public companies plus marketable securities. Shares are recorded at the lower of cost and net realizable value except as noted below. Marketable securities are recorded at cost, adjusted for the unamortized balance of related premiums and discounts incurred on purchase.

Investments in shares of companies in which the Corporation exercises significant influence are recorded on the equity method of accounting. Cablecom Corporation, Prairie Malt Limited and Saskoil Development Corporation, wholly-owned non-consolidated subsidiaries of CIC Industrial Interests Inc., are also recorded on the equity method.

The annual earnings of these investee corporations are included as revenue from investments.

Where the nature of an investment in shares is such that increases in the equity of the investee corporations are not likely to accrue to the investor corporation, regardless of whether significant influence exists or there is a parent-subsidiary relationship, the investment is carried on the cost method. Dividends are recorded as income when received.

Where there has been a decline in the value of an investment that is considered other than temporary in nature, the investment is written down to net realizable value.

e) Property, plant and equipment

Property, plant and equipment is recorded at cost and includes materials, services, direct labour and fringe benefit costs which are readily identifiable with the construction activity or asset acquisition. The cost of funds used to finance the construction of major projects is also included.

The costs of maintenance, repairs and renewals or replacements are charged to operations as incurred. The costs of replacements and improvements which extend productive life are capitalized.

When property, plant or equipment is disposed of or retired, the related costs and accumulated depreciation are eliminated from the accounts. Any resulting gains or losses are reflected in the statement of operations. This general policy applies only to complete asset units in the Saskatchewan Power Corporation. Saskatchewan Telecommunications includes gains or losses in accumulated depreciation.

f) Depreciation and depletion

Buildings and improvements as well as machinery and equipment costs are depreciated primarily on the straight-line basis over the estimated productive life of each asset.

Deferred property, exploration and development costs, oil and gas production and gathering systems and mining assets are depleted according to the unit-of-production method.

g) Deferred charges

Deferred charges include debt-related charges, unamortized early retirement program costs, pre-operating and pre-acquisition costs and unamortized conversion differences arising from translation of long-term debt in foreign currencies to Canadian dollars.

Unamortized conversion differences arising from translation of foreign currency debt are amortized over the remaining period to the maturity date of each related debt obligation.

Unamortized discounts and expenses applicable to the issue of long-term debt are amortized in equal annual amounts over the respective term of each obligation. Gains earned on the retirement of sinking fund assets before maturity are included with deferred charges and are amortized over the respective initial term of each obligation.

Pre-operating and pre-acquisition costs are amortized over a period not exceeding 10 years.

h) Customer capital contributions

Capital contributions are required from Saskatchewan Power Corporation customers when the cost of providing service is expected to exceed estimated revenue to be earned over a period of time. These contributions are categorized in two ways:

Deferred revenue — when the deficiency is for only a portion of the life of the facilities,

Equity — when the deficiency exceeds the estimated life of the facilities.

i) Foreign exchange translation

Monetary items are translated at the rate of exchange in effect at the year end. Revenue and expenses are translated at rates in effect as they occur. Non-monetary items are translated at the exchange rate prevailing at the time of the transaction. Long-term debt and related accrued interest, payable in foreign currencies, are recorded at exchange rates prevailing at the year end date. Where this conversion results in a difference from the previously recorded amount for long-term debt, the difference is included in deferred charges and amortized on a straight-line basis over the remaining terms of the debt.

j) Leases

As lessee, where the Corporation has substantially all of the benefits and risks incident to the ownership of property, plant and equipment, the lease is classified as a capital lease. At the inception of a capital lease, an asset and an obligation are recorded at an amount equal to the lesser of the present value of the minimum lease payments and the property's fair value. Property, plant and equipment recorded as capital leases are amortized on a basis similar to other assets in the same depreciation category. All other leases are classified as operating leases and lease payments are expensed as incurred.

As lessor, where the Corporation transfers substantially all of the benefits and risks incident to the ownership of the property, plant and equipment to the lessee, the lease is classified as a sales-type lease or direct financing lease. At the inception of these leases the difference between the fair value and carrying value of the lease asset is recognized as income (or loss). The present value of future minimum lease payments is recorded as the net investment in leases. When lease payments are received, a portion is applied against the net investment with the remainder recognized as financing income. All other leases are classified as operating leases and lease payments are recorded as income.

2. Status of the Crown Investments Corporation of Saskatchewan

The Crown Investments Corporation of Saskatchewan, then named The Government Finance Office, was established by Order-in-Council 535 dated April 1, 1947, and continues under the provisions of The Crown Corporations Act, 1978, as Crown Investments Corporation of Saskatchewan.

3. Long-term investments

	1985	1984
	(thousands of dollars)	
Shares		
—cost method	$ 58,741	$ 55,687
—equity method	29,762	25,476
Bonds and debentures	66,609	61,502
Loans, notes and leases receivable	284,945	275,106
Property holdings	52,021	52,483
	$ 492,078	$ 470,254

Bonds and debentures had a market value of $72 million on December 31, 1985 (1984 — $60 million). Shares accounted for by the equity method, include an amount of $28 million (1984 — $24 million) which represents the Corporation's shareholdings in Prairie Malt Limited, Cablecom Corporation and Saskoil Development Corporation. The proportionate share of 1985 net earnings for equity investments amounted to $2 million (1984 — $3 million) and is included as revenue from investments.

Shares accounted for by the cost method include an amount of $11 million which represents shareholdings in Westank Industries Ltd.

4. Property, plant and equipment

	1985	1984
	(thousands of dollars)	
Land	$ 87,747	$ 88,580
Buildings & improvements	696,209	578,591
Machinery & equipment	4,772,189	4,396,385
Capital leases	110,850	108,094
Plant under construction	743,839	742,895
Deferred property, exploration & development costs	930,021	854,639
	7,340,855	6,769,184
Accumulated depreciation and depletion	1,832,636	1,596,217
	$5,508,219	$ 5,172,967

The approximate composite rate of depreciation and depletion is 5 per cent on all property, plant and equipment excluding land, plant under construction and certain deferred capital costs of Saskatchewan Mining Development Corporation. These undepreciable assets amount to $1,157 million (1984 — $1,119 million).

5. Deferred charges

	1985	1984
	(thousands of dollars)	
Unamortized foreign exchange losses on long-term debt	$ 223,081	$ 160,054
Deferred financing charges	46,222	47,013
Pre-operating and pre-acquisition costs	30,318	49,184
Other deferred charges	11,576	18,015
	$ 311,197	$ 274,266

6. Bank indebtedness

Certain accounts receivable, inventories, equipment and land are pledged as collateral for bank indebtedness of $41 million (1984 — $48 million). Of this amount $28.4 million is payable in United States dollars and is fully hedged by forward contracts.

7. Notes payable

Notes due to the Province of Saskatchewan's Consolidated Fund and the Saskatchewan Heritage Fund amounted to $347 million at December 31, 1985 (1984 — $196 million). The notes are interest bearing, having an average annual interest rate of 8.93 per cent (1984 — 10.3 per cent) and are repayable on terms of less than one year.

8. Long-term debt

Province of Saskatchewan

A. Consolidated Fund

Years to Maturity	1985 Principal Outstanding U.S. Dollars	1985 Principal Outstanding Canadian Dollars	1985 Average Interest Rate	1984 Principal Outstanding	1984 Average Interest Rate
Canadian Dollar Issues					
1-5 years		$ 998,139	9.20	$ 957,238	8.83
6-10 years		141,533	7.22	188,082	7.40
11-15 years		333,827	9.87	191,264	9.03
16-20 years		1,136,291	11.81	1,017,946	11.40
21-25 years		50,000	9.00	50,000	9.00
		2,659,790		2,404,530	
United States Dollar Issues					
1-5 years	$ 582,813	814,847	11.44	593,372	12.65
6-10 years	396,452	554,319	15.67	700,871	12.53
11-15 years	—	—		—	
16-20 years	—	—		—	
21-25 years	375,000	524,363	8.86	495,637	8.86
	$ 1,354,265	1,893,529		1,789,880	
Gross Debt Due to Consolidated Fund		4,553,319		4,194,410	
Less: sinking fund balance		362,410		312,907	
Total due to Consolidated Fund		4,190,909		3,881,503	

8. Long-term debt (continued)

	1985			1984	
	Principal Outstanding		Interest Rate	Principal Outstanding	Interest Rate
	U.S. Dollars	Canadian Dollars			
B. Saskatchewan Heritage Fund					
Due 1987		10,000	9.3	15,000	9.3
		—		13,400	13.0
Total due to Saskatchewan Heritage Fund		10,000		28,400	
TOTAL DUE TO PROVINCE OF SASKATCHEWAN		4,200,909		3,909,903	
Other long-term debt					
— Saskatchewan Power Corporation Savings Bonds					
Series I		55,848	11.5	60,056	11.5
Series II		90,850	9.5	—	
— Saskatchewan Oil and Gas Corporation-Participation Bonds		15,000	13.3	15,000	13.3
— Capital lease obligations (Note 15)		113,821	Various	114,632	Various
— Lending institutions (due 1989)	24,000	33,042	9.5-11.3	115,000	Prime related
— Other (due 1986 to 2013)	7,400	61,293	8.5- 20.3	25,471	12.25-16.625
Total other long-term debt		369,854		330,159	
Total debt — all sources		4,570,763		4,240,062	
Less due within one year		(285,153)		(248,977)	
	$ 1,385,665	$ 4,285,610		$ 3,991,085	

There is a requirement, attached to certain interest-bearing advances from the Consolidated Fund, to make annual payments to the Province in amounts representing one per cent to three per cent of the original advance. These annual payments are invested, at interest, by the Province with the cumulative aggregate being available for the retirement of the advances on their maturity dates.

Certain loans received from the Consolidated Fund in the amount of $750 million require that the debentures be subject to redemption on six months notice.

Included in the United States dollar issues is a loan for 150 million Swiss francs fully hedged at $77,662,684 (United States dollars) maturing on March 1, 1988, with interest payable annually and another loan for 100 million Swiss francs fully hedged at $46,452,000 (United States dollars) maturing on June 30, 1992, with interest payable annually.

The interest rate on the Saskatchewan Power Corporation Savings Bonds can be increased at the discretion of the Minister of Finance of the Province and is subject to redemption semi-annually until maturity at the option of the bondholder. Series I bonds mature July 6, 1987 and Series II bonds mature July 6, 1988.

Saskatchewan Oil and Gas Corporation Participation Bonds have an annual interest rate based on the sum of 10.0 per cent plus 0.03 percentage points for each full $1.0 million of Net Sales Revenue for the preceding year. During 1985 the interest rate was 13.3 per cent (1984 — 13.3 per cent). The bonds carry a right of redemption on March 31, 1988 at $1080 and March 31, 1989 at $1050 per $1000 of bond principal. The bonds mature March 31, 1990.

Saskatchewan Mining Development Corporation entered into several interest rate swap agreements maturing at various dates from August, 1987 to September, 1988. These agreements have the effect of converting $175,000,000 (United States dollars) of fixed rate debt into floating rate debt. The agreements include certain covenants on behalf of both parties thereto and provide for early termination under specified conditions.

Sinking fund and debt retirement requirements for the next five years are as follows (thousands of dollars):

1986 — $281,567
1987 — $467,247
1988 — $531,129
1989 — $363,356
1990 — $243,964

Long-term debt payable in United States dollars has been translated into Canadian dollars at an average year-end exchange rate of 1.3938 (1984 — 1.3217).

The composite rate of interest on long-term debt, prior to deduction of the sinking fund balance, was 12.8 per cent (1984 — 12.7 per cent).

9. Province of Saskatchewan's equity

All advances have been received directly from the Saskatchewan Heritage Fund, are non-interest bearing and are repayable at the discretion of the Province of Saskatchewan. Advances from the Saskatchewan Heritage Fund to those Crown corporations included in these consolidated financial statements are as follows:

	1985	1984
	(thousands of dollars)	
Crown Investments Corporation of Saskatchewan	$ 109,976	$ 109,976
Potash Corporation of Saskatchewan	418,554	418,554
Saskatchewan Mining Development Corporation	218,700	218,700
Saskatchewan Oil and Gas Corporation	—	91,500
	$ 747,230	$ 838,730

10. Commitments and contingencies

Crown Investments Corporation of Saskatchewan (the Corporation) and its consolidated Crown corporations had the following commitments as at December 31, 1985:

a) forward commitments of $2,542 million for natural gas and $1,492 million for coal, contracted for future minimum deliveries valued at current prices,

b) capital expenditures for approximately $174.4 million,

c) approved but undisbursed loans of approximately $28.5 million, loan guarantees in force of approximately $6.7 million of which $0.1 million were not used at December 31, 1985,

d) borrowed 919,444 pounds of uranium concentrates to be repaid subject to prior notice on December 31, 1986. If the obligations to return these borrowed concentrates in kind can not be met, the lender could, on demand, draw upon letters of credit in the amount of $52 million (United States dollars) guaranteed by the Province of Saskatchewan to cover the costs of purchasing substitute concentrates,

e) borrowed 150,000 pounds of uranium concentrates, with repayment subject to prior notice on or before December 31, 1991. Should the obligation to return the concentrates not be met, the lender through its guarantor, could purchase concentrates from an outside party and Saskatchewan Mining Development Corporation must reimburse the guarantor,

f) financial commitments arising from various exploration and development joint venture agreements.

The Corporation and its consolidated Crown corporations had the following contingencies as at December 31, 1985:

a) In 1983 the Cumberland House Local Community Authority #3 and various local groups and residents commenced legal action against the Saskatchewan Power Corporation (SPC) and the Province of Saskatchewan claiming $200 million as compensation for damages allegedly suffered due to the construction and operation of the Squaw Rapids Hydroelectric Station. The case is now proceeding. SPC is contesting the claim. A reasonable estimate of the amount of the settlement, if any, cannot be determined at this time.

b) In 1982 SPC sold a dragline for $45 million. The purchaser of the dragline, financed the transaction by issuing promissory notes due May 18, 2003. The notes were endorsed by SPC and SPC's liability as endorser is guaranteed by the Province of Saskatchewan. SPC holds a chattel mortgage on the dragline as security against its contingent liability.

c) The corporations are the defendants to several unresolved statements of claim. The corporations have provided in their accounts for these claims in accordance with the advice received from legal counsel. The corporations intend to account for any differences which may arise, between amounts provided and amounts expended, in the period in which the claims are resolved.

11. Interest expense

	1985	1984
	(thousands of dollars)	
Interest on long-term debt	$ 564,690	$ 504,153
Amortization of deferred financing costs	5,818	4,891
Amortization of foreign exchange losses	35,234	19,860
	605,742	528,904
Less		
— interest capitalized	107,886	112,216
— sinking funds earnings	44,837	30,684
— gain on debt retirement	587	707
	153,310	143,607
Long-term debt interest expense	452,432	385,297
Short-term debt interest expense	32,036	41,575
	$ 484,468	$ 426,872

12. Saskatchewan taxes and resource payments

	1985	1984
	(thousands of dollars)	
Resource royalties and payments		
Oil, gas and coal royalties	$ 55,096	$ 57,364
Potash royalties and payments	11,893	23,609
Uranium royalties	5,261	3,999
Timber dues	1,853	2,062
Sodium sulphate royalties	806	922
	74,909	87,956
Grants in lieu of taxes to municipalities	28,015	26,520
Capital tax	7,993	8,660
Insurance premium tax	4,576	4,718
Other	2,406	833
Total paid or payable	117,899	128,687
Amounts inventoried	(3,503)	(3,560)
Amounts capitalized	(37)	(45)
	$ 114,359	$ 125,082

Saskatchewan taxes and resource payments as stated above do not include Saskatchewan Education and Health Tax payments.

13. Extraordinary items

Extraordinary items are as follows:

	1985	1984
	(thousands of dollars)	
— Writedown of deferred charges (see below)	$ (19,094)	$ —
— Gains on sale of assets	—	12,756
— Loss on revaluation of investment	—	(1,961)
— Losses on sales of assets	—	(3,111)
	$ (19,094)	$ 7,684

Costs incurred in prior years for exploration, mineral rights and feasibility studies relating to the Bredenbury potash mine site (and other locations) previously included in deferred charges were written off in 1985.

14. Reinvested earnings - appropriated

	1985	1984
	(thousands of dollars)	
Opening balance, January 1 ...	**$ 348,015**	$ 322,319
Appropriations:		
— Potash Corporation of Saskatchewan	**(68,733)**	25,349
— Saskatchewan Mining Development Corporation ...	**18,049**	15,238
— Automobile Accident Insurance Act	**—**	(14,891)
	(50,684)	25,696
Less dividend	**(25,000)**	—
Closing Balance, December 31	**$ 272,331**	$ 348,015

The appropriation of reinvested earnings of the Potash Corporation of Saskatchewan and Saskatchewan Mining Development Corporation is in respect to the Saskatchewan Heritage Fund and is in accordance with a resolution of the Corporation's board of directors made pursuant to The Crown Corporations Act, 1978. Any dividends paid out of these reinvested earnings by Crown Investments Corporation of Saskatchewan must be paid only to the Saskatchewan Heritage Fund.

The amount shown as the closing balance represents the cumulative net earnings of the Potash Corporation of Saskatchewan and Saskatchewan Mining Development Corporation, less dividends paid out of these cumulative net earnings by Crown Investments Corporation of Saskatchewan to the Saskatchewan Heritage Fund.

15. Leases

a) The Corporation, a lessor, has entered into capital leases which transfer substantially all of the benefits and risks of ownership to the lessee. The investment in these types of leases is as follows:

	1985	1984
	(thousands of dollars)	
Amounts due within one year ..	**$ 3,225**	$ 2,285
Amounts due thereafter	**15,044**	14,170
Total investment in capital leases	**$ 18,269**	$ 16,455

Financing income earned from the above leases amounted to $2.7 million in 1985 (1984 — $2 million).

b) All other assets leased by the Corporation, as lessor, were considered operating leases as follows:

	1985	1984
	(thousands of dollars)	
Cost of property leased	**$ 24,544**	$ 24,902
Related accumulated depreciation	**(3,505)**	(3,374)
Net cost of property leased	**$ 21,039**	$ 21,528

Rental income derived from the above property amounted to $5 million in 1985 (1984 — $4 million).

c) The Corporation, as lessee, has entered into capital leases whereby substantially all of the benefits and risks of ownership have been transferred to the Corporation from the lessor. Commitment information related to these leases is as follows:

	1985	1984
	(thousands of dollars)	
Future minimum lease payments		
1985	**$ —**	$ 17,019
1986	**18,248**	16,954
1987	**18,141**	16,951
1988	**16,876**	16,820
1989	**16,876**	16,818
1990	**16,864**	—
Thereafter	**142,727**	159,834
Total minimum lease payments	**229,732**	244,396
Less amount representing interest and executory costs	**(115,912)**	(129,764)
Balance of obligation	**113,820**	114,632
Less current portion	**(4,798)**	(3,369)
	$ 109,022	$ 111,263

d) All other leases entered into by the Corporation, as lessee, were operating leases with future minimum lease payments as follows:

	1985	1984
	(thousands of dollars)	
1985	$ —	$ 21,196
1986	25,373	18,027
1987	22,129	15,850
1988	19,970	13,078
1989	16,404	8,734
1990	10,255	—
Thereafter	23,957	21,089
	$ 118,088	$ 97,974

16. Remuneration of directors and senior officers

The Corporation's eleven directors received $30,300 (1984 — $8,462) remuneration from Crown Investments Corporation of Saskatchewan as directors. The twelve senior officers (1984 — 15) received, in aggregate, $749,725 in salaries for 1985 (1984 — $1,054,125). Certain officers positions were temporarily vacant in 1985.

17. Related party transactions

Included in these consolidated financial statements are income and expense amounts resulting from routine operating transactions conducted at prevailing market prices with various Saskatchewan Crown controlled departments, agencies and non-Part II Crown corporations with which the Corporation is related.

Account balances resulting from these transactions are included in the consolidated statement of financial position and are settled on normal trade terms.

Other amounts due to and from related parties and the terms of settlement are described separately in the consolidated financial statements and the notes thereto.

Under the authority of Section 21 of The Water Corporation Act, the Saskatchewan Water Corporation receives grants out of monies appropriated by the legislature for the purposes identified in that section from the Consolidated Fund of the province.

During 1985 Saskatchewan Water Corporation received $28.1 million (1984 — $17.5 million) in grants from the Consolidated Fund. Of this amount $18 million was recorded as income and $10.1 million included in deferred revenue (current). The deferred portion will be amortized to income on a straight-line basis during the first three months of 1986.

18. Regulatory Commission

The Public Utilities Review Commission Act was proclaimed in full force and effect in December 1982 by the Saskatchewan Legislature. Certain rates charged by corporations included in these consolidated financial statements are subject to the review and approval of the Commission as follows:

a) Saskatchewan Power Corporation and North-Sask. Electric Ltd. with respect to rates for sale of energy or gas,

b) Saskatchewan Telecommunications with respect to rates charged within Saskatchewan for non-competitive telephone services.

19. Pensions

Substantially all employees of the corporations included in these financial statements are participants in either money purchase or benefit based pension plans.

Three corporations make regular payments into their benefit based pension plans at actuarially determined rates. These rates will provide for future pension benefits over the remaining working lives of the employees. The most recent actuarial valuations indicate that there are past service costs of approximately $22 million (1984 — $68.6 million) which will be funded and charged to future operations.

20. Subsequent Events

a) On December 13, 1985, the Saskatchewan Legislature enacted The Saskatchewan Oil and Gas Corporation Act, 1985. This Act repealed The Saskatchewan Oil and Gas Corporation Act and continued the Saskatchewan Oil and Gas Corporation (Saskoil) under The Business Corporations Act.

On the date the Act came into force, $145,500,000 of existing advances from Crown Investments Corporation of Saskatchewan (CIC)to Saskoil were converted as follows:

A loan to Saskoil repayable on demand without interest	$ 145,499,100
100 fully paid common shares of Saskoil	900
	$ 145,500,000

On December 16, 1985, the loan referred to above was converted into 15,842,810 common shares of Saskoil.

On December 16, 1985, Saskoil issued a final prospectus which constituted an initial public offering of the common and preferred shares of the continued corporation. The offering was in the form of 3,793,104 units with each unit consisting of one common and two cumulative redeemable voting convertible second preferred shares, Series A. As of January 14, 1986, all the units were fully subscribed and Saskoil received proceeds of $110,000,016 (before underwriting and other expenses).

Also on January 14, 1986, Saskoil paid a $75,000,000 dividend to CIC out of the funds derived from the share issue.

Following completion of the offering, CIC owned 81 per cent of the outstanding common shares of Saskoil representing 58 per cent of the voting shares of Saskoil.

b) The carrying value of Saskoil's oil and gas properties and production equipment ($225 million at December 31, 1985) is limited to an amount determined by estimating undiscounted future net revenues from proven producing reserves together with the lower of cost and fair market value of non-producing properties. The determination of the value of undiscounted future net revenues is based on prices, costs, production levels and existing economic factors as determined by corporate and independent engineers. As at December 31, 1985, based on conditions existing at that date, there was no impairment of the carrying value of Saskoil's oil and gas properties.

Subsequent to December 31, 1985 oil prices declined significantly. If such price declines are determined by Saskoil to be other than temporary, and there are no compensating changes in other factors used in the determination of undiscounted future net revenues from proven producing reserves, an adjustment of the carrying value of oil and gas properties could result. The future impact, if any, of the above factors on the carrying value of oil and gas properties is not determinable at this time.

	Resources		Utilities		Financial & Services		Consolidated Operations	
	1985	1984	1985	1984	1985	1984	1985	1984
	(millions of dollars)							
Statement of Operations								
Revenue	$ 598	$ 623	$ 1,326	$ 1,227	$ 165	$ 159	$ 2,089	$ 2,009
Operating costs	322	297	795	717	150	151	1,267	1,165
Interest	111	74	287	271	16	14	414	359
Depreciation and depletion	96	94	161	152	2	2	259	248
Saskatchewan taxes	65	75	41	42	6	6	112	123
	594	540	1,284	1,182	174	173	2,052	1,895
Segment margin	$ 4	$ 83	$ 42	$ 45	$ (9)	$ (14)	37	114
Earnings from equity investments (Note 3)							2	3
Interest, general corporate expenses and subsidiary							(98)	(57)
Extraordinary items							(19)	8
Intercorporation profits							(1)	(1)
Consolidated net income (loss)							$ (79)	$ 67

Revenue and expenses are recorded before the elimination of intercorporation transactions. These transactions are priced at open market prices for similar products and services and are eliminated in the determination of the consolidated statement of operations.

Interest, general corporate expenses and subsidiary include the results of Crown Investments Corporation of Saskatchewan (the unconsolidated entity) and Prince Albert Pulp Company Ltd. The Saskatchewan Oil and Gas Corporation's results are included in the Resources segment.

	Resources		Utilities		Financial & Services		C.I.C. Corporate		Consolidated Operations	
	1985	1984	**1985**	1984	**1985**	1984	**1985**	1984	**1985**	1984
	(millions of dollars)									
Investments	**$ 1**	$ 1	**$ 117**	$ 118	**$ 243**	$ 223	**$ 131**	$ 128	**$ 492**	$ 470
Property, plant & equipment	**$ 2,203**	$ 2,099	**$ 3,116**	$ 2,869	**$ 32**	$ 30	**$ 157**	$ 174	**$ 5,508**	$ 5,172
Capital expenditures	**$ 209**	$ 223	**$ 424**	$ 388	**$ 3**	$ 1	**$ 7**	$ 6	**$ 643**	$ 618
Long-term debt	**$ 969**	$ 950	**$ 2,732**	$ 2,547	**$ 47**	$ 25	**$ 537**	$ 469	**$ 4,285**	$ 3,991

The information stated above is net of intercorporation transactions.

For the purposes of providing the foregoing segmented information given in this note, C.I.C. Corporate includes C.I.C., CIC Industrial Interests Inc. and Prince Albert Pulp Company Ltd.